



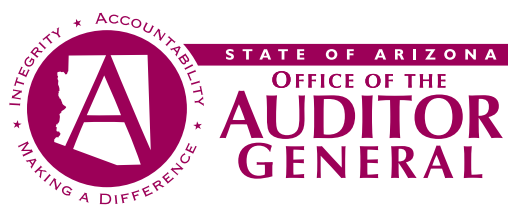
A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Ganado Unified School District No. 20

Year Ended June 30, 2002



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Accounting Services Division Staff

Gregg Rickert, Manager and Contact Person
grickert@auditorgen.state.az.us

Amanda Winn

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.auditorgen.state.az.us



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

January 15, 2004

Governing Board
Ganado Unified School District No. 20
P.O. Box 1757
Ganado, AZ 86505-1757

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2002, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

As you are aware, the Special Investigative Unit of my Office issued an Investigative Report—Misfeasance by District Officials related to Ganado Unified School District No. 20, dated June 23, 2003. That report described the misuse of public monies, and procurement violations by district officials and included our recommendations concerning those matters.

Sincerely,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



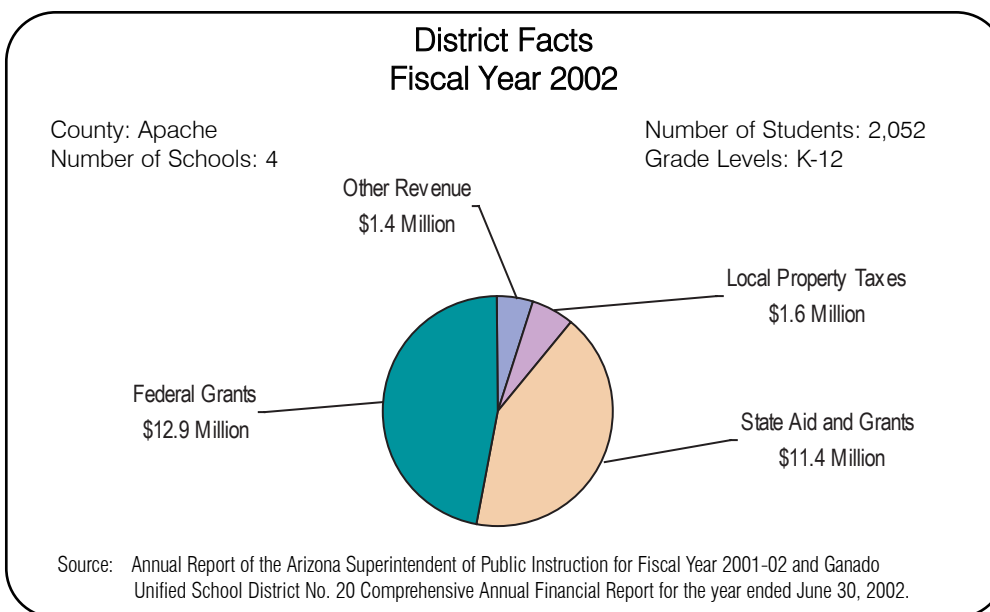
Introduction	1
Recommendation 1: The District's controls over capital assets should be strengthened	2
Recommendation 2: The District's accounting records should be accurately maintained	3
Recommendation 3: The District must follow competitive purchasing requirements	4
Recommendation 4: The District should establish stronger controls over expenditures	5
Recommendation 5: The District should improve controls over its bank accounts	6

INTRODUCTION

Ganado Unified School District No. 20 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$27 million it received in fiscal year 2001-02 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education. The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2002, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



The District's controls over capital assets should be strengthened

The District failed to update its capital assets list for \$1.7 million worth of capital assets acquired in fiscal year 2001-02 and over \$4.5 million of its capital assets were not insured.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have an accurate list of these assets and to ensure they are properly identified and accounted for. However, the District's capital assets list had not been updated for assets acquired during fiscal year 2001-02 and did not include the location or the identification number for all assets on the list. In addition, assets loaned to individuals through the Community Technology Center grant agreement were not identified as such, and one asset paid for by the same grant was being used for another purpose. Finally, the District did not have adequate insurance coverage for its capital assets.

Recommendations

The following procedures can help the District ensure that its capital assets lists are accurate and complete, and that its assets are properly safeguarded and controlled:

- Update the stewardship and capital assets lists at least annually for items purchased, donated, disposed of, or transferred to other locations. Identify on the lists or maintain a separate record of assets loaned to individuals or sent out for repair.
- Include all required information for each item on the capital assets list.
- Reconcile items added to the capital assets lists during the fiscal year to capital expenditures for that year, the prior year's capital asset list to the current year's list, and make all necessary corrections.
- Affix a tag with an identifying number to each equipment item costing \$1,000 or more, or use some other means, such as a serial number, to specifically identify each asset on the stewardship and capital assets lists.
- Use federally funded assets only for the program from which they were funded.

In addition, the District must maintain adequate insurance coverage for all capital assets.

USFR pages VI-E-2 and 3 describe information that should appear on the capital assets list.

The District's accounting records should be accurately maintained

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that transactions are recorded correctly, in the appropriate accounts, and in the proper fiscal year. However, the District did not fully accomplish this objective. For example, revenue and expenditure transactions were not always recorded in the appropriate accounts, and transfers-in did not balance with transfers-out. In addition, the District made an unallowable transfer from the Title IX—Indian Education Fund to the Maintenance and Operation Fund. Further, the District prepared its Annual Financial Report (AFR) prior to closing its books for the fiscal year. As a result, expenditures and transfer amounts reported on the AFR did not always agree to district accounting records.

Numerous coding errors resulted in revenues recorded in the wrong funds and object codes, and expenditures recorded in the wrong function and object codes.

Recommendations

The following procedures can help the District record and report accurate financial information:

- Record all financial transactions in accordance with the USFR Chart of Accounts.
- Ensure that for each operating interfund transfer-in, there is a corresponding interfund transfer-out. At the end of each accounting period, transfers-in and transfers-out should be analyzed to ensure that they balance.
- Make only allowable transfers, as authorized by statute.
- Update accounting records for all revenues, expenditures, transfers, and any necessary adjustments before preparing the AFR.
- Assign a second employee to verify that the amounts reported on the AFR are accurate and complete before it is submitted to the county school superintendent and the Arizona Department of Education.

USFR §III provides guidance for classifying financial transactions.

The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or the USFR guidelines. For example, the District used competitive sealed proposals without determining in writing that using proposals would be more beneficial to the District than competitive sealed bids. In addition, the District did not always obtain oral or written price quotations for purchases requiring them.

Recommendations

To strengthen controls over competitive purchasing, the District should establish and follow the policies and procedures listed below:

- The District's Governing Board should determine in writing that the use of competitive sealed bids is either not practicable or not advantageous to the District before making purchases using competitive sealed proposals.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,700. If three price quotations cannot be obtained, document the vendors contacted and their reasons for not providing quotations. Purchases may be single items within the price range or collections of items that, in the aggregate, are within the price range.

School District Procurement Rules describe procedures on how to appropriately use competitive sealed proposals in *Arizona Administrative Code R7-2-1041*.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$32,700.

The District should establish stronger controls over expenditures

The District spends tax dollars to purchase goods and services, so it is essential that the District follows procedures designed to help ensure that these monies are spent appropriately and recorded properly.

However, the District did not ensure that sufficient cash was available before making expenditures. As a result, the Gifts and Donations Fund had a \$57,818 deficit fund balance at June 30, 2002. In addition, the District did not always prepare purchase orders before goods or services were ordered. Also, the District improperly recorded expenditures in fiscal year 2001-2002 for goods ordered during the fiscal year but not received until after June 30, 2002. Further, the District has failed to collect on overpayments of at least \$190,000 to a construction company made by the District during fiscal year 1999-2000.

The District overpaid a vendor by at least \$190,000 during FY 1999-2000 and as of December 2003 had not obtained a reimbursement.

Recommendations

To strengthen controls over its expenditures, the District should establish and follow the policies and procedures listed below:

- Approve expenditures for payment only when sufficient cash or budget capacity is available, as applicable. If sufficient cash balance or budget capacity is not available, the District should deny the payment of the expenditure.
- Prepare prenumbered purchase orders and obtain approval from an authorized employee prior to ordering goods or services.
- Post expenditures to the accounting records of the same fiscal year goods or services are received.
- Monitor progress billings and changes to contracts to ensure that vendors are paid only the amount due.

USFR pages VI-G-2 through 5 describe expenditure processing procedures.

The District should improve controls over its bank accounts

Because of the relatively high risk associated with transactions involving cash, school districts should establish and maintain effective internal controls to safeguard cash. Consequently, district management should take steps to ensure that its bank account balances are adequately insured and collateralized, and that bank account reconciliations are prepared accurately and timely.

The District had \$47,934 of uninsured and uncollateralized monies on deposit at the bank.

However, the District did not accomplish these objectives. For example, the District did not have collateral for its bank deposits in excess of \$100,000, the Federal Deposit Insurance Corporation (FDIC) threshold. As a result, deposits of \$47,934 in the bank were uninsured and uncollateralized at June 30, 2002. In addition, the District did not prepare reconciliations for the Student Activities bank account in a timely manner.

Recommendations

To help strengthen controls over bank accounts the District should establish and follow the policies and procedures listed below:

- Obtain a collateral agreement from the bank for balances on deposit in excess of the FDIC threshold.
- Prepare written monthly bank reconciliations for all bank accounts in a timely manner and have those reconciliations reviewed by district management.

Bank reconciliation procedures are outlined on USFR page VI-C-6.